



Drumbeat: May 26, 2010

Posted by [Gail the Actuary](#) on May 26, 2010 - 9:20am

Topic: [Miscellaneous](#)

[Gulf oil spill: 'Top kill' procedure begins](#)

Engineers have begun the "top kill" maneuver aimed at stanching the gush of oil from a blown-out well at the bottom of the Gulf of Mexico, BP and U.S. Coast Guard confirmed.

The much-awaited procedure began at 1 p.m. Central Daylight Time, according to BP.

The maneuver, which BP officials warned could take hours or days to complete, would attempt to overpower the upward flow of oil by pumping drilling fluid -- and eventually a cement mixture -- at high pressure down the well. Several hundred engineers in Houston have prepped for the effort for weeks.

If executed incorrectly, however, the top kill could blow the fail-safe systems, dramatically increasing the flow of oil.

[Chevron CEO: Oil Industry Suggests Govt Raise Safety Standards Due To Spill](#)

Chevron Corp. (CVX) Chief Executive John Watson said Wednesday the oil and gas industry has asked the U.S. government to raise the safety standards for offshore drilling in order to avoid another "tragedy" like the massive spill that is still threatening the U.S. Gulf of Mexico.

Speaking at the company's shareholder meeting in Houston, Watson said the company leads one of the two industry task forces that last week gave U.S. Interior Secretary Ken Salazar a report with recommendations about the procedures that should be implemented and improved to avoid another massive accident.

[BP poised for 'top kill' to try to plug spill; final decision to come Wednesday](#)

The most critical moment in the oil spill crisis in the Gulf of Mexico is at hand, as BP engineers armed with 50,000 barrels of dense mud and a fleet of robotic submarines are poised to attempt a "top kill" maneuver to plug the gushing well a mile below the surface.

It's far from a sure bet. BP chief executive Tony Hayward said Wednesday morning that the company hadn't yet decided whether to go forward with the risky plan, which rather than sealing the well could possibly make the leak worse.

"Over the last 12 hours, continuing through the night, we have continued to take pressure readings and establish flow pulse," Hayward said on NBC's "Today" show. "Later this morning I will review that with the team and I will take a final decision as to whether or not we should proceed."

[Rear Admiral Landry Approves "Top Kill" Procedure](#)

Federal On-Scene Coordinator Rear Admiral Mary Landry, acting on the validation of government scientists and in consultation with the National Incident Commander Admiral Thad Allen, has granted approval for BP to begin proceeding with their attempt to cap the well using the technique known as the "top kill."

This expedited step provides the final authorization necessary to begin the procedure.

[Upstream Online: BP admits 'crucial error' ahead of blowout](#)

For a full, no-nonsense explanation of the top kill, check out the Oil Drum.

[Russian supreme court backs antitrust fines against TNK-BP](#)

Russia's Supreme Arbitration Court (SAC) Tuesday backed a ruling by the country's antimonopoly service fining TNK-BP for abusing antitrust legislation and setting artificially high oil products prices, in a decision widely seen as setting a precedent for similar cases against other oil companies.

[House and Senate to Unveil Bipartisan Electrification Bills](#)

On Thursday, May 27, House Select Committee on Energy Independence and Global Warming Chairman Ed Markey (D-MA) and Rep. Judy Biggert (R-IL) - followed by Senators Byron Dorgan (D-ND), Lamar Alexander (R-TN), and Jeff Merkley (D-OR) - will introduce the Electric Vehicle Deployment Act of 2010, legislation that aims to advance the widescale deployment of electric vehicles and to develop the infrastructure needed to support them, largely through the selection and creation of specific geographic areas in which government incentives and local initiative will combine to provide all of the elements of an electrified transportation system.

[The U.S. Exports More Corn Ethanol](#)

The United States has gone from being a net importer of ethanol to a net exporter, which will continue to help fuel Nebraska's growing ethanol market, said Todd Sneller, executive administrator of the Nebraska Ethanol Board. . .

Another reason for the growth of U.S. ethanol exports, according to RFA, is the saturated domestic market for ethanol.

"Ethanol use in the U.S. is arbitrarily capped at 10 percent per gallon of gasoline (E10). Based on historic gasoline demand trends, this arbitrary 10 percent cap, called the 'Blend Wall,' would be around 12.5-13.5 billion gallons of ethanol. The U.S. industry has the capacity to produce 13.5 billion gallons annually, with more capacity waiting in the wings," RFA reported. [to continue reading](#). . .

There is nothing low cost about exploiting our land to produce politically driven, taxpayer subsidized ethanol through industrialized corn growing.

[Wind industry executives pessimistic about growth this year](#)

"Right now, wind energy needs to get more cost-competitive," said Michael O'Sullivan, a senior vice president for NextEra Energy Resources, a major wind generator in Texas.

It was much easier for wind generation to compete against natural gas when gas cost \$8 per 1,000 cubic feet, O'Sullivan said. But with it now only slightly above \$4, renewable power "has gotten expensive" by comparison, he said.

[Arctic oil spill could have 'catastrophic' impact: scientists](#)

The Beaufort project found that the presence of oil accelerated the melt of sea ice in the spring, partly by causing the ice to absorb more radiation from the sun. Surprisingly, the study also found that the oil encouraged the growth of simple organisms such as algae and plankton.

Adams said the behaviour of a big oil spill in deeper Arctic waters is difficult to predict without more field research.

[BP Cites Crucial 'Mistake'](#)

The memo sheds new light on a key test performed hours before the explosion that has been a focus of congressional investigations. BP previously told investigators that a "negative pressure" test, which checks for leaks in the well, was inconclusive at best and "not satisfactory" at worst.

But in the meeting Tuesday, BP went further, saying the results were an "indicator of a

very large abnormality" but that workers—unnamed in the memo—decided by 7:55 p.m. that the test was successful after all. That may have been a "fundamental mistake," BP's investigator said in the meeting, according to the memo. Reps. Henry Waxman (D., Calif.) and Bart Stupak (D., Mich.) wrote the memo, which was made public Tuesday.

After that, workers began to remove the heavy drilling fluid, called "mud" in the industry, that provides pressure to prevent any gas that seeps into the well from rising to the surface.

The memo also describes a breakdown in communication aboard the rig in the hours leading up to the explosion that made it tough for workers to monitor how much mud was coming out of the well—a key measure of whether gas is leaking in, according to the memo.

[After five weeks of gushing oil: 'Top kill' plug readied](#)

Marking five disastrous weeks, BP readied yet another attempt to slow the oil gushing into the Gulf on Tuesday as a federal report alleged drilling regulators have been so close to oil and gas companies they've been accepting gifts and even negotiating to go work for them.

[U.S. to Toughen Drill Rules](#)

President Barack Obama, fighting to stay ahead of the political storm over the Gulf oil spill, is expected to announce on Thursday that the government will impose tougher safety requirements and more rigorous inspections on off-shore drilling operations.

[Trade Groups: Liability Hike Would Drive Many from GOM](#)

Legislation seeking to increase producers' liability for economic damages from oil spills would make oil and natural gas operations in the Gulf of Mexico (GOM) uninsurable by all but the largest companies, two producer groups said.

"Initial economic analysis shows raising the liability cap to \$10 billion per incident would limit Gulf operations to only the largest companies, forcing mid-size and smaller firms who cannot self-insure from the market," said Jack Gerard, CEO of the American Petroleum Institute (API), which represents major producers.

[EPA Considering Banning BP from Gov't Contracts](#)

The EPA said in a statement that, according to its regulations, it can consider banning BP from future contracts after weighing "the frequency and pattern of the incidents,

corporate attitude both before and after the incidents, changes in policies, procedures, and practices."

Several former senior EPA debarment attorneys and people close to the BP investigation told ProPublica that means the agency will re-evaluate BP and examine whether the latest incident in the Gulf is evidence of an institutional problem inside BP, a precursor to the action called debarment.

[Civil fine in Gulf spill could be \\$4,300 barrel](#)

The basic fine, according to the act, is \$1,100 per barrel spilled. But the penalty can rise to \$4,300 a barrel if a federal court rules the spill resulted from gross negligence. The fines were originally set at \$1,000 to \$3,000 but that was raised in 2004 to keep up with inflation, according to Tracy Hester, head of the Environmental Law and Policy program at the University of Houston.

(To see an EPA memo on 2004 revisions to penalties outlined in the Clean Water Act, click here: [here](#))

It is unclear, however, that the EPA would try to apply the fines, or seek maximum penalty levels. EPA officials did not respond to several calls and e-mails requesting comment.

[SBA Approves \\$571,000 in New Economic Injury Loans for Small Businesses Impacted by Deepwater BP Oil Spill](#)

The U.S. Small Business Administration has approved 15 economic injury assistance loans totaling \$571,000 for small businesses in the Gulf Coast region, SBA Administrator Karen Mills announced today. Additionally, the agency has granted deferments on 64 existing SBA disaster loans in the region.

SBA is offering economic injury loans and deferrals on existing loans to fishing and fishing-dependent small businesses as a result of the Deepwater BP oil spill that shut down commercial and recreational fishing waters.

[Obama's Leaky Offshore Drilling Halt Raises Eyebrows](#)

How is it that the Obama Administration could declare a moratorium on offshore oil drilling immediately after the Deepwater Horizon explosion only to have 17 permits issued afterwards?

That's the question NPR's Ari Shapiro attempted to answer with a report on All Things Considered. The answer? It's complicated.

The confusion apparently stems, according to Ari, from the Obama Administration,

inexplicably, not putting a consequential order like the moratorium in writing.

[BP's oil spillcam: A horror movie about the gulf that's deeply compelling](#)

For all the gunk on television, it's hard to think of a more depressing show these days than the "spillcam," the live, continuous underwater footage of the broken BP pipe that has been gushing away deep, deep down in the Gulf of Mexico for more than a month now.

Spillcam combines the dread of horror films with the monotony of Any Warhol's eight-hour silent movie of the Empire State Building. There is no sound and nothing happens, except the inexorable, unending flow. You watch a little, and then a little more, and then you can't stop watching as a steady plume of dark brown oil belches upward from the floodlit, rocky ocean floor.

[Whither the Deepwater Horizon costs?](#)

Bloomberg has this chart suggesting \$95bn has been wiped off the price of the five companies associated with the GoM oil leak:

It suggests Transocean's decline has been steepest, but it's the giant market cap of BP that inevitably has attracted the most attention. The company is thought to have lost about \$26bn of its value thanks to the Deepwater Horizon accident, when compared against its sector.

Several equities analysts believe, based on the likely costs of the spill, that BP shares have taken a bigger hit than is warranted. But arguments are emerging against this view.

[BP chairman takes on US critics](#)

BP's chairman hit back at critics of the company's response to the oil spill in the Gulf of Mexico, insisting that they ought to remember that the group was "big and important" for the US.

Mr Svanberg, who took over as chairman in January, said the company's board felt Tony Hayward, the chief executive, was doing a "great job", in spite of widespread criticism in the US.

"This is a very difficult issue to deal with, a leak in 5,000ft of water," Mr Svanberg added. "Everything that can be done is being done."

He also rejected calls for the government to take direct control of the clean-up operation.

[Not just oil: US hit peak water in 1970 and nobody noticed](#)

The general concept of peaking has also been valuable, as it applies to just about any finite resource. A new analysis suggests that it may be valuable to consider applying it to a renewable resource as well: the planet's water supply.

The analysis, performed by staff at the Pacific Institute, recognizes that there are some significant differences between petroleum and water. For oil, using it involves a chemical transformation that won't be reversed except on geological time scales. Using water often leaves it in its native state, with a cycle that returns it to the environment in a geologic blink of an eye. Still, the authors make a compelling argument that, not only can there be a peak water, but the US passed this point around 1970, apparently without anyone noticing.

Link to a [site](#) that provides a free early version of the paper.

[Brazil Petrobras April Total Gas, Oil Production 2.599M BOE/Day](#)

In Brazil, Petrobras domestic oil production rose 1.9% to a record average of 2.033 million barrels a day in April, up from March's output of 1.994 million barrels a day. That topped the previous record of 2.004 million barrels a day set in September 2009. April's production was also up 2.9% from April 2009, Petrobras said.

[Venezuela GDP Fell 5.8% In 1st Quarter - Central Bank](#)

Oil production is trending lower as mature fields begin to naturally pump less, while new oil blocks aren't being developed quickly. Also hurting overall economic output has been a drought and poor planning in the electricity sector, which have contributed to massive water and power outages that have stalled factory assembly lines.

Manufacturing output fell 10% last quarter compared with that quarter a year ago.

At the same time, inflation is running at an annual 30%, so even with a government increase to the minimum wage, real salaries are lower this year compared with last.

[Answer to Schwarzenegger's cuts: Oil tax and billions in borrowing](#)

Billions more for schools and universities. No devastating cuts to programs for the poor. Millions of dollars for reeling cities and counties. And the only new taxes would be paid by oil companies — a long-sought proposal that may find new sympathy in California amid backlash over the Gulf of Mexico oil spill.

That's the promise of a budget proposal unveiled Tuesday by Democrats in the state Assembly. The plan — which involves tax maneuvers and borrowing nearly \$9 billion against the state's recycling program — is a baroque attempt to plug a \$19.1 billion deficit while staving off harsh cuts proposed by Gov. Arnold Schwarzenegger.

[Oil Leads a Broad Rout as Investors Unload Risk](#)

Commodities were part of a wider move by investors out of riskier assets over concerns that Spain is headed down the same path as Greece, which will need an outside bailout to handle its debts.

For oil, a commodity with demand closely tied to global growth, the declines over the last month have been the most pronounced since the worst of the downturn in late 2008 and early 2009. The front-month July crude futures contract settled down 2.1% at \$68.75 a barrel.

[China, U.S. To Enhance Cooperation On Energy Data, Shale Gas](#)

A working group will be established to make formal arrangements for cooperation between the U.S. Energy Information Administration and China's National Energy Administration, including information sharing, the collection of energy production data and end-use consumption data as well as strategies for the dissemination and analysis of energy information, it said.

The two countries will also open communication on establishing an energy emergency early-warning system and work together to prevent manipulation of oil-futures markets, it said.

[Foreign Firms Dominate Wind Energy in U.S., Land Stimulus Dollars](#)

Overseas companies also own and manage many of the wind farms sprouted along our amber fields of grain. Last year their U.S. subsidiaries even tapped the 2009 American Recovery and Reinvestment Act, sending billions in federal stimulus dollars to foreign-owned energy and manufacturing conglomerates in Europe and Asia.

Through one stimulus measure -- the Section 1603 Grant Program -- developers of renewable energy are entitled to a reimbursement of 30 percent of the cost of building a facility. Since last September, that government program has given out \$2.3 billion to developers of U.S. wind farms. About 70 percent of the rebates -- more than \$1.6 billion in U.S. tax dollars -- has gone to foreign developers, according to an analysis in February by the Washington-based Investigative Reporting Workshop of grant information released by the Department of Energy.

[Economist: Europe debt hurting Wyo. energy prices](#)

The European debt crisis is driving up the value of the U.S. dollar, which makes American products more expensive in foreign markets, he said.

"That has hurt Wyoming," he said. "It will continue to hurt Wyoming because it makes energy less competitive. It drives down the prices of oil, it drives down the prices of natural gas to a lesser extent."

[Energy Industry Seeking Shield From Financial Overhaul Bill](#)

As Congress heads into its final round of negotiations on a financial overhaul bill, energy companies are making a push to win exemptions from strict derivatives regulations.

The House and Senate have passed separate bills that would require companies trading in markets ranging from interest rates to crude oil to post collateral to a central clearinghouse. Energy companies have warned setting aside the cash to comply may force them to curb investment, take on additional debt or reduce their use of derivatives.

Oil, gas and power industry lobbyists have fought a long, largely unsuccessful battle to convince lawmakers to apply the new rules only to banks and hedge funds that build their businesses around derivatives trading.

[Welcome To Peak Oil - The Deeper You Drill, The More You Might Spill](#)

While it is hard to imagine how exactly they got process safety so wrong - drilling a mile below sea level without frequently testing and certifying that the system would actually shut the flow off when needed? - we should not miss the larger point, that **this failed charge signifies the arrival of Peak Oil.**

[Alaska pipeline shut down following oil spill](#)

Crude oil from the trans-Alaska pipeline spilled Tuesday into a massive tank and overflowed into a containment area, shutting down the 800-mile line until the hazard is removed.

The spill happened during a scheduled pipeline shutdown at a pump station near Fort Greely, about 100 miles south of Fairbanks.

[Pennsylvania Marcellus output may top 2.5 Bcf/d in 2011](#)

Natural gas production from the Marcellus Shale in Pennsylvania is expected to more than double in 2011 to 2.5 Bcf/d from 1 Bcf/d in 2010, the Pennsylvania State University's College of Earth and Mineral Sciences said in a study Tuesday.

[Brazil's booming agriculture sector eyes global markets](#)

Brazil is the world's biggest producer of coffee, oranges and sugar cane.

It is the second largest grower of soy, and the third for corn. And it is growing faster than its competitors.

"We have the fourth largest agricultural system in the world, after China, the United States and Europe," says Dr Guilherme Dias, professor of rural economy in the University of Sao Paulo.

"But their production is stalled while Brazil's is growing fast, so I think we will be ahead of United States and Europe in about 20 years."

[In graphics: Eurozone in crisis](#)

One of the main causes of the currency crisis in the eurozone is that virtually all countries involved have breached their own self-imposed rules.

Overall, Greece is the worst offender, with debt at 115.1% of GDP and a deficit of 13.6% of GDP. But among the bigger economies, Italy's debt is even higher than Greece's as a percentage of GDP, while Spain's deficit is 11.2% of GDP. If the UK were in the eurozone, it would also fall foul of the criteria, with its debt now standing at 68.1% of GDP and its deficit at 11.5% of GDP.

[Flash floods destroy Bangladesh livelihoods](#)

There have been efforts to introduce a strain of rice that can survive under water - and therefore still be harvested, even when submerged by flooding.

Those strains tend to originate in China and there is a reluctance to adopt them.

"The problem," says Mr Chowdhury, "is that we are accustomed to eating one kind of rice and people are not happy to change their cultural habits."

Meanwhile, families will have to endure the shortage of food and they will have meagre resources, if any at all, to purchase the seeds for planting next year.

[Global economy shrugs off debt crisis](#)

Europe's sovereign debt crisis sent shock waves across the world as it proved that the recovery from the great recession was neither steady nor guaranteed.

But through this tense period, most economists have remained confident in the world economic recovery. Greece, Spain, Portugal, Ireland and Italy are simply not big enough to derail the global economy.



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